

Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 2364 - Income Tax Exemption, Military Active Duty (LSB 5074 HV)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version - New
Requested by Representative Jeff Kaufmann

Description

House File 2364 excludes pay received for active military duty from the State income tax. The exclusion applies to members of the U.S. armed forces, armed forces reserve, and National Guard. The Bill is retroactive to tax years beginning on or after January 1, 2006.

Assumptions

1. There are 1,500,000 U.S. military personnel, and 0.85% (12,750) are Iowans.
2. Of the U.S. military personnel, 150 are stationed in Iowa and therefore, Iowa taxpayers.
3. Of the remaining Iowa U.S. military personnel, 15.0% are currently Iowa taxpayers (1,890). The remaining personnel are residents of other states for tax purposes or are exempt from income tax due to war zone duty.
4. There are 1,200 Iowa National Guard and 465 Iowa Military Reserve personnel on active duty.
5. The National Guard and Military Reserve personnel will be on active duty 12 months of calendar year 2006 and five months of calendar year 2007. U.S. military personnel are always on active duty.
6. Of the active duty National Guard and Military Reserve personnel, 25.0% are residents of other states for tax purposes or are exempt from income tax due to war zone duty.
7. The average monthly pay for FY 2006 will be \$2,800 and increase 3.5% per year.
8. The average income tax rate for active military personnel will be 4.5%.
9. Income tax withholding payments prior to July 1, 2006, will not be impacted.

Fiscal Impact

The income tax exclusion included in HF 2364 will reduce State income taxes owed by active duty military personnel by the following amounts:

- FY 2007 – \$4.9 million
- FY 2008 – \$4.0 million
- FY 2009 – \$3.2 million

The exclusion from taxable income will also reduce the local option income surcharge tax. The surcharge is a percentage of Iowa tax liability and equals approximately 3.0% of total State income tax revenue. Revenue from the surcharge is distributed to schools. The surtax reduction is estimated as follows.

- FY 2007 – \$147,000
- FY 2008 – \$119,000
- FY 2009 – \$100,000

For future fiscal years, the State General Fund and school local income tax surcharge reductions will be similar to FY 2009.

Source

Department of Public Defense, Military Division

/s/ Holly M. Lyons

February 14, 2006

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.
